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NEWS RELEASE

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State Protests 2005 Trans-Alaska Pipeline Oil Transportation Tariffs: Attorney General Says Rates Are Too High

(Juneau, AK) - The state today filed a protest with the Federal Energy Regulatory Commission, objecting that the proposed 2005 interstate oil transportation tariffs for the Trans-Alaska Pipeline System are too high. The state's protest also challenges certain aspects of the pipeline owners' 2003 and 2004 tariffs.

The pipeline owners filed their proposed 2005 interstate tariffs Dec. 1, governing the charges for shipping a barrel of oil from Pump Station No. 1 on the North Slope to the port of Valdez for delivery out of state. Each of the five pipeline owners files its own tariff each year, with the proposed 2005 rates ranging from $3.52 to $3.98 per barrel.

"These rates stand in stark contrast to the rates set by the Regulatory Commission of Alaska for oil used in Alaska. Our 1985 settlement agreement with the pipeline owners prohibits discrimination in the rates. We have protested this discrimination and seek an order from FERC that would eliminate the discrimination by lowering the interstate tariff," said Attorney General Gregg Renkes in announcing the state's protest, which was filed today at FERC offices in Washington, D.C. "The largest of the increases is 28 percent, and the state believes that is too much," Renkes said.

The state looked at some of these same issues last year and initially protested the 2004 tariffs before FERC on narrower grounds.

"We resolved the issues last year in part on the understanding that the owners and the state would attempt during the year to negotiate a successor agreement to the existing 1985 TAPS Settlement Methodology, to remove uncertainty in the future," Renkes said. "Unfortunately, we were not successful this year in reaching an agreement. We hope the parties will continue to talk, but in the meantime I have informed the owners that I must protect the state's interests and revenues. We recognize the litigation track may be slow, but it does not preclude simultaneous discussions with the owners."

"The state remains open to solutions that will bring down the tariffs, promote exploration and increase throughput," the attorney general said. "When throughput is increased, the costs of pipeline operation and maintenance are spread over more barrels, which can lead to lower tariffs. And lower tariffs would increase the state's revenues and make additional exploration more economic. Ultimately, this should be everyone's goal," Renkes said.

Higher pipeline tariffs reduce the value of the oil, cutting into state royalty and production tax revenues. A $2.00 difference in the tariff charged can add up to as much as $120,000,000.00 per year in revenue to the state.

The five TAPS owners are BP, ConocoPhillips, ExxonMobil, Unocal and Koch. The smallest increase was filed by ConocoPhillips, from $3.23 per barrel in 2004 to $3.52 in 2005. The largest increase was filed by BP, from $3.01 in 2004 to $3.86 per barrel in 2005, almost 28 percent.

"We are now faced with a situation where a shipper whose oil is intended for an out-of-state destination pays as much as $2 more per barrel than a shipper sending oil the same distance, through the same pipeline, but to an in-state destination," Renkes said. "We think that violates the Interstate Commerce Act's prohibition against unjust discrimination and undue preference to shippers."

Although FERC regulates interstate oil tariffs, the Regulatory Commission of Alaska regulates intrastate oil transportation tariffs covering deliveries of North Slope crude oil to in-state refineries. Those rates, as set by the RCA, are much lower than the pipeline owners' proposed rates for moving oil to Valdez for loading aboard tankers.

The intrastate tariff charged to transport oil from Pump Station No. 1 to Valdez is $1.96 per barrel, significantly lower than the owners' proposed interstate tariff filed with FERC. The lower intrastate tariff is the result of a November 2002 RCA order, which the pipeline owners are appealing. The state also appealed the order—not because it believes the tariff determined by the RCA is too low but rather because it disagrees with the process and some of the inputs the commission used in its rate-setting determination. "We cannot know what the court result will be; in the meantime discriminatory rates exist and should be remedied," said the attorney general.

The state's filing with FERC protests the inclusion in the 2005 interstate rates of costs related to the eventual dismantling and removing of pipeline facilities and right-of-way restoration. "Through the process of updating and reconfiguring the pipeline to make it more efficient, the owners have shut down or removed some facilities or portions of facilities," Renkes said. "These activities should be paid for out of funds the owners have collected from shippers for this purpose since the line started operations in 1977, not by adding to the 2005 tariffs. We are asking FERC to look at these activities and identify and quantify what amounts might have been improperly included in the rates. In addition, we are asking them to establish a procedure to account for the costs of dismantling, removal and restoration we go forward," Renkes said.

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